MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM 1D 2210)

BBF3624 – CREDIT MANAGEMENT

(All sections / Groups)

11 FEBRUARY 2023
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 3 Questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific and financial calculators.
4. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) Given the highly leverage capital structure of banks, banks need to avoid excessive risk-taking. Based on this inherent nature, bank financing will remain ill-suited to some businesses, especially high-risk undertakings by small medium enterprises (SMEs), given the fiduciary duty responsibility of banks to ensure the safety of public's deposits. As such, investment in new growth areas, such as technology, biotechnology, and renewable energy needs to explore some other alternative financings such as equity crowdfunding (ECF) and Peer to Peer (P2P) financing. Advise an entrepreneur who is looking for external funding from these 2 sources.

(10 marks)

b) You recently met with your schoolmate who is doing his own start-up. Advise him that several government agencies do provide financial assistance to SMEs and describe **FIVE (5)** of those financing schemes offered to SMEs.

(10 marks)

(Total: 20 marks)

QUESTION 2

The export market offers excellent opportunities for Malaysian to expand their existing customer base. However, conducting business overseas can be complex and involve many risks. It is important for exporters to understand these risks. Understanding how to manage trade risks is key to successful exporting. As an exporter, you must find the right trade financing solution. Export-Import Bank of Malaysia (EXIM Bank) through designated commercial banks provides a short-term trade financing scheme for exporters.

a. Advise and elaborate the specific short-term trade financing scheme available to exporters that is being administered by Exim Bank.

(12 marks)

b. Explain the objectives and how exporters can secure the scheme.

(8 marks)

(Total: 20 marks)

QUESTION 3

Dagang NeXchange Berhad is an investment holding company, which engages in the business of information communication technology and energy. The Information Technology segment focuses on the supply, delivery, installation, testing, commissioning, and maintenance of IT hardware, and the development, management, and provision of business to government e-commerce and computerized transaction in trade facilitation services. The Energy segment delivers upstream oil and gas exploration, production, and involvement in power plant, engineering, and energy-related business.

Continued .....

Recently the company signed a memorandum of understanding with Accenture Solutions to jointly work on digital transformation. Under the alliance, both companies will leverage resources to accelerate digitalisation, cloud computing, and the fourth industrial revolution. In view of this newly secured contract, the company applied for a RM50.0 million loan to your bank.

The company listed on Main board of Malaysia Bourse since 2000 and has a headquarter in Cyberjaya, Malaysia. Its bond is currently rated "A" and traded at 7.5% p.a. while comparable Government bonds is traded at 5.9%. p.a.

The following financial figures were provided as follows:

	RM in million
Cash and cash equivalents	448.4
Receivables, net	1082.3
Unbilled Receivables, net	549.5
Inventory, net	1249.2
Other current assets	78.9
Other long-term assets	156.4
Share capital	94.8
Account payable	795.5
Customer advances	382.0
Payroll-related Obligations	183.6
Income taxes payable	73.5
Other current liabilities	307.3
Property land and equipment	573.6
Goodwill	995.7
Purchase intangible assets, net	432.3
Retained earnings	2505.0
Long term liabilities	1224.6
Net Sales	8382.0
Cost of goods sold	6864.6
Selling and administrative expenses	683.5
General expenses	36.9

Common stock shares outstanding 7,500,101,465 @ RM0.575 per share

Your further investigation had revealed the following facts. The recent board of directors meeting which was held last month resolved that the Directors are authorized to apply and undertake on behalf of the company a loan of RM50.0 million. Further checking on the company and its Directors from CTOS Berhad database, Bank Negara Malaysia (BNM) database on Central Credit Reference Information System (CCRIS), and Credit Bureau database on Credit Risk Report (CRR), reveal no pending legal actions and no adverse credit findings.

Continued .....

The Directors also have no criminal records after further checking with an internal fraud database, PDRM, BNM and SPRM databases. Searches from the Malaysia Department of Insolvency and Bankers Accuity database on all Directors and the company also produced negative findings.

The company also intends to pledge few landed assets, worth RM40.0 million. Those assets that had been valued by your bank's panel of registered valuers, C.H. Williams Talhar Wong & Yeo Sdn Bhd, were found to be free from any encumbrances and have not been used as collateral for any loans prior to this. The last bond issuance by the company was unsecured loan stocks. The analyst of your bank also forecasted an overall positive outlook on the Malaysian economy for the next 5 years and Dagang NeXchange Berhad business sector is not on the negative list of your bank.

a. Prepare statement of financial position and profit and loss (partial) using the given financial figures.

(15 marks)

b. Conduct an expert analysis by commenting (and calculating relevant ratios wherever applicable) on 5Cs methodology.

(15 marks)

c. Conduct risk premium analysis by answering the following:

i. What is the risk premium implied from the comparison between the company's bond and the government bond? What does this mean?

ii. Calculate its probability of non-repayment.

iii. With landed assets pledged as additional security, the expected recovery rate from the loan is 90%. Based on the improved recovery rate, what would be a reasonable minimum required premium for this loan?

iv. Based on your answers in i, ii and iii, is the premium reflected in the company's bond issuance sufficient to cover the additional risk?

(15 marks)

d. Based on the financial statements you have prepared also, calculate the Altman Z score and interpret the results and each of the components.

(15 marks)

(Total: 60 marks)

End of Page.